

# **EXHIBIT 2**

# INTELLECTUAL PROPERTY RIGHTS

*Fiscal Year 2017 Seizure Statistics*



*Prepared by*

U.S. Customs and Border Protection  
Office of Trade



Homeland  
Security

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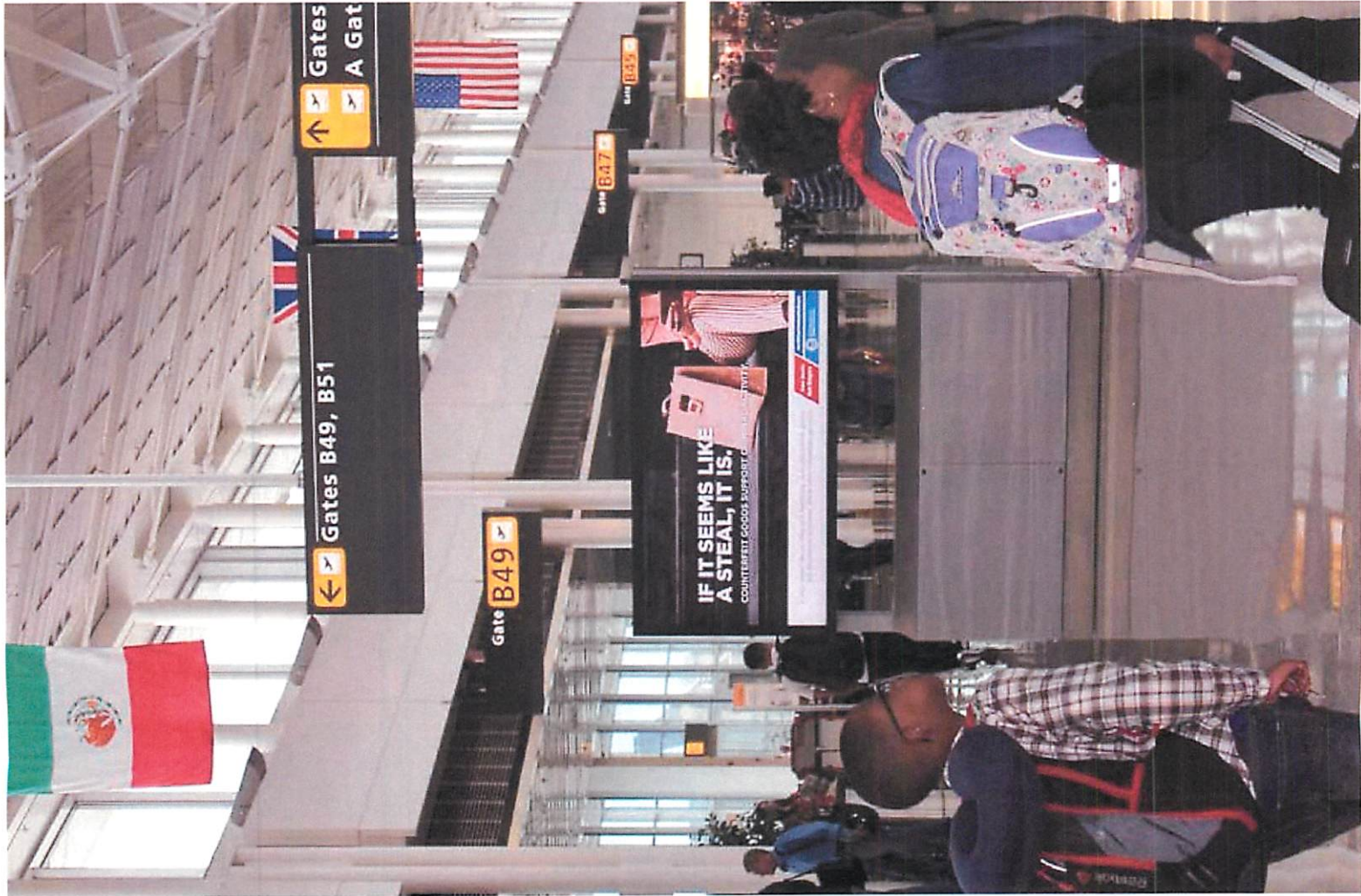




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Disclaimer: The information contained in this report does not constitute the official trade statistics of the United States. The statistics, and the projections based upon those statistics, are not intended to be used for economic analysis, and are provided for the purpose of establishing U.S. Department of Homeland Security workload.





## Executive Summary

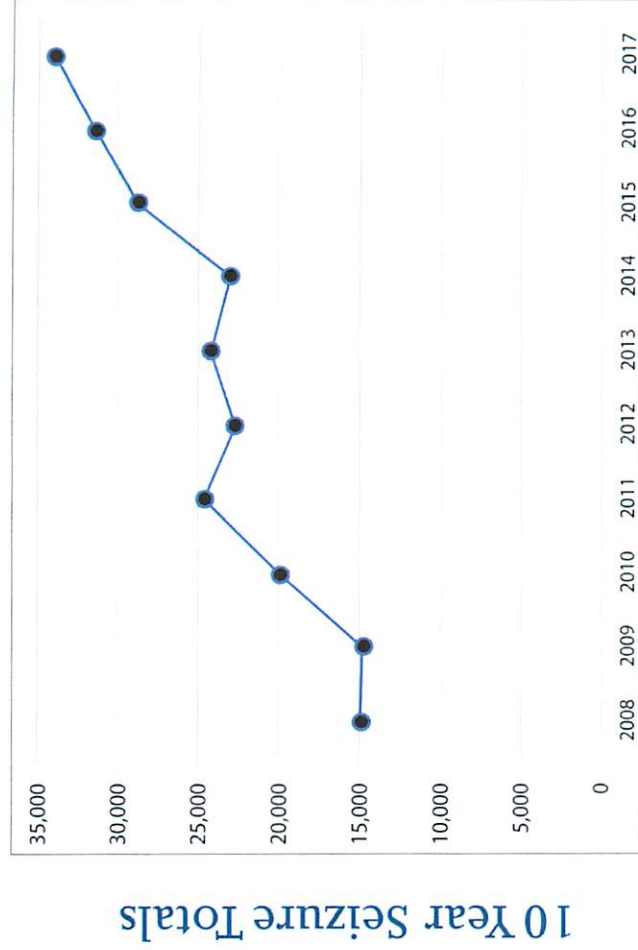
Products that infringe U.S. trademarks and copyrights or are subject to exclusion orders issued by the United States International Trade Commission, threaten the health and safety of American consumers and pose risks to our national interests. Enforcement of intellectual property rights (IPR) by U.S. Customs and Border Protection and U.S. Immigration and Customs Enforcement (ICE), Homeland Security Investigations (HSI) mitigates the financial and welfare risks posed by imports of such illicit products.

In Fiscal Year (FY) 2017, the number of IPR seizures increased 8 percent to 34,143 from 31,560 in FY 2016. The total estimated manufacturer's suggested retail price (MSRP) of the seized goods, had they been genuine, decreased to \$1,206,382,219 from \$1,382,903,001 in FY 2016.

In FY 2017, ICE-HSI arrested 457 individuals, obtained 288 indictments, and received 240 convictions related to intellectual property crimes.

Each year, more than 11 million maritime containers arrive at our seaports. At our land borders, another 10 million arrive by truck and 3 million arrive by rail. An additional quarter billion more cargo, postal, and express consignment packages arrive through air travel. The components within the Department of Homeland Security (DHS) remain vigilant in targeting shipments containing IPR-infringing goods, levying civil fines and criminally investigating those who seek to violate our trade laws, harm our people and damage our economy.

## Year in Review



In partnership with the Express Association of America and its members, CBP continued the voluntary abandonment pilot program. This program—supported through a formal recommendation by the Commercial Customs Operations Advisory Committee (COAC), CBP's federal advisory committee—resulted in 5,588 voluntary abandonments of detained goods and significant interdiction cost savings to the government.

In FY 2017, CBP completed 115 exclusion order enforcement actions (shipments seized and shipments excluded).

CBP seized 297 shipments of circumvention devices for violations of the Digital Millennium Copyright Act (DMCA), a 324 percent increase from 70 such seizures in FY 2016.



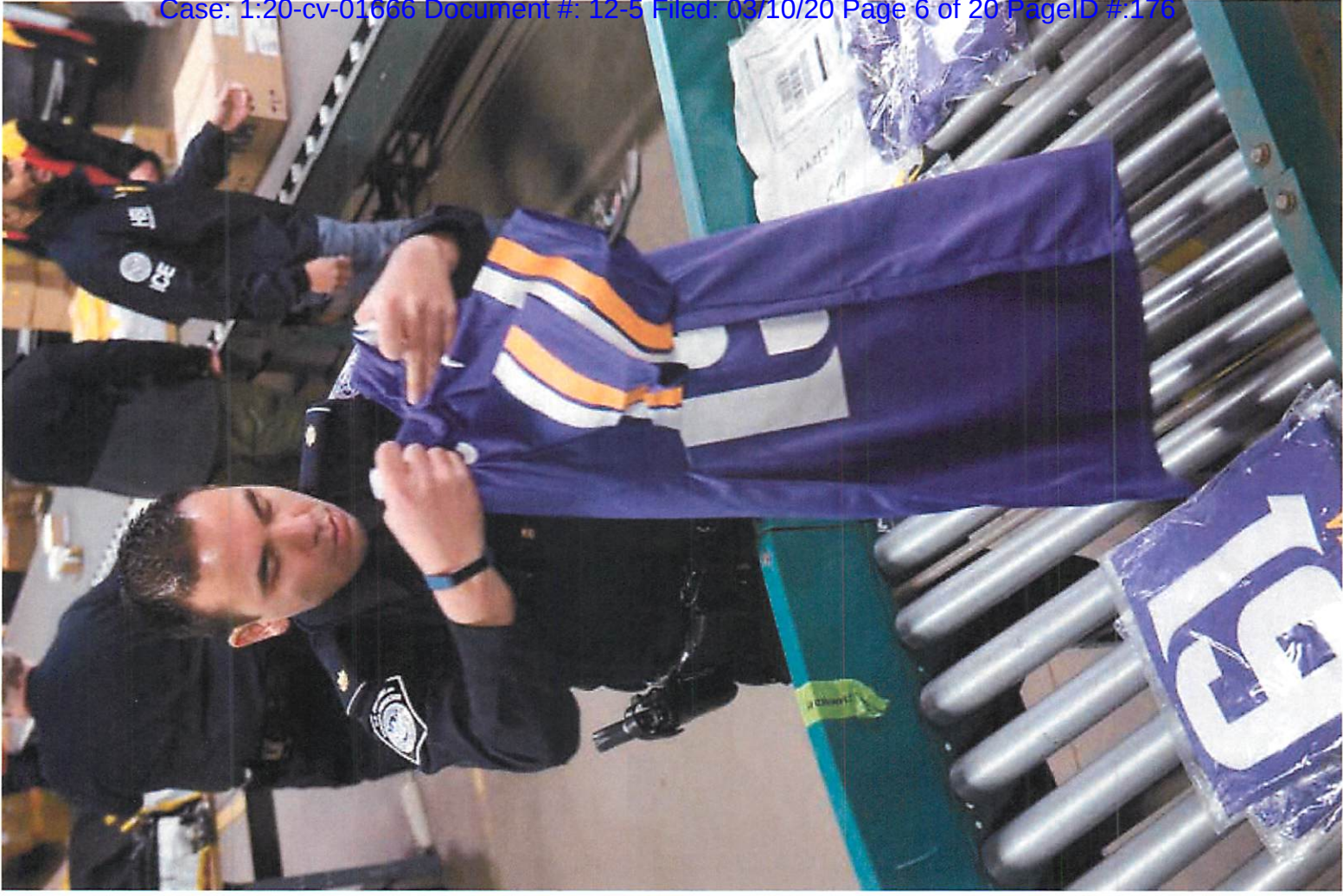
## Year in Review

Components of CBP's Integrated Trade Targeting Network (ITTN) conducted 12 national level IPR-mitigating trade operations in FY 2017. These operations targeted high-risk shipments at seaports, airports, international mail facilities, and express carrier hubs across the U.S., and resulted in 1,845 seizures of IPR-infringing goods which, if genuine, would have an estimated MSRP of \$44 million.

Eight of these operations were conducted by Mobile Intellectual Property Enforcement Teams (MIPETs), groups of IPR experts deployed to assist enforcement operations. MIPET operations resulted in 1,687 seizures of IPR-infringing goods valued at \$34.6 million MSRP and 67 abandonments.

CBP and the General Administration of China Customs (GACC) conducted two month-long joint IPR enforcement operations in April and August 2017. The operations focused on household consumer electronics, pharmaceuticals, wearing apparel, footwear, watches, handbags, consumer electronics, printer cartridges, batteries, and related merchandise. During the operations, both CBP and GACC focused on stopping shipments of IPR-infringing goods from entering U.S. commerce, with CBP making seizures at the U.S. border and GACC interdicting exports of counterfeit goods destined for the United States. The two joint operations resulted in 3,496 seizures.

The ICE-led National IPR Coordination Center, along with representatives from CBP, conducted Operation Team Player prior to Super Bowl LI to jointly address the illegal importation of counterfeit sports-related merchandise. As a result of these efforts, U.S. task force officers arrested 12 individuals and conducted 104 seizures/abandonments of approximately 24,324 items with an estimated MSRP value of approximately \$1.2 million.





## Year in Review

CBP and HSI seized 123 shipments of semiconductor devices affixed with counterfeit trademarks in FY 2017. In total, 49 trademarks were counterfeited in these seizures.

Consumer Products is a new category of seized products. This category ranks 5th among the top ten categories with 3,912 seizures of products such as insulated drinking tumblers, cell phone and computer accessories, and lights and light fixtures. Some of these goods may have posed threats to health and safety had they not been interdicted.

Seizures of iconic, mid-century, modern design home and office furniture continued to increase for a second year in a row. There were 38 seizures, and the seized goods would have had an estimated total MSRP of \$15.1 million had they been genuine. This represented a 260 percent increase in seizure value from the previous year. CBP's furniture enforcement efforts have helped to protect over 8,000 American jobs related to the companies that make the genuine furniture. As these companies purchase raw materials and parts from other U.S. companies, additional American jobs in other industries were protected.

A California importer of counterfeit computer networking equipment was sentenced to 37 months in federal prison. CBP identified and seized the counterfeit shipments and referred the case to HSI for criminal investigation. CBP's identification of incoming counterfeit labels led to HSI search warrants resulting in the seizure of counterfeit products, which if genuine, would have had total estimated MSRP value of \$2.6 million. The suspect pleaded guilty to attempting to traffic \$4 million of counterfeit goods.





## Year in Review

The Centers, managed from strategic locations around the country, have national authority to make trade decisions at all ports of entry in an effort to meet the goals of strengthening America's economic competitiveness, enhancing industry knowledge and expertise, developing innovative trade processing procedures, applying strategic and impactful trade enforcement actions, and leveraging available trade intelligence. Throughout FY 2017, the Centers have been developing and executing operations to address areas of risk related to possible IPR violations. These activities may be directed at a specific port of entry and expanded to all ports of entry as the risk is scoped out nationally.

During 2017, CBP and ICE continued to implement various Trade Facilitation and Trade Enforcement Act of 2015 (TFTEA) provisions that specifically call for actions regarding IPR enforcement and provide mechanisms to supplement IPR enforcement. These include mandates to enhance collaboration between CBP, ICE and rights holders, interagency coordination through the National IPR Coordination Center, and international partnerships to stop counterfeiting at the source.



## Year in Review

Pursuant to the TFTEA Section 308(d), CBP has prescribed regulations (19 CFR 133.61) for receiving donations from private sector parties of hardware, software, equipment, and technologies for the purpose of enforcing IPR.

The ICE-led IPR Center engages in partnerships with the public and private sectors to combat IP theft through its Operation Joint Venture initiative. This initiative is designed to increase information sharing with public and private sectors to combat the illegal importation and distribution of counterfeit, substandard, and tainted goods. Joint Venture targets rights holders, manufacturers, importers, customs brokers, freight forwarders, bonded facilities, carriers, and others to discuss the IPR Center's priorities of protecting public health, safety, and the economy, and securing the Government's supply chain. In addition to the industry outreach mission, it conducts domestic and international training of federal, state, local, and foreign law enforcement to facilitate seizure of illicit goods. In FY 2017, more than 14,000 people participated in 339 outreach and training events.

CBP concentrates its IPR border enforcement on federally registered trademarks and copyrights that have been recorded with CBP by their owners using the Intellectual Property Rights e-Recordation (IPRR) system, <https://iprr.cbp.gov/>. CBP administers these recordations using a secure proprietary database that CBP can access to make IPR border enforcement determinations. Product identification manuals that are prepared by rights holders are also linked to the database and used by CBP in making IPR border enforcement determinations.



## Year in Review

At the close of FY 2017, CBP enforced trademarks and copyrights pertaining to over 18,209 active recordings, including 2,343 new recordings or renewals of expiring recordings.

Since August 2016, pursuant to Section 304 of the TFTEA, 22 new recordings were initiated for copyrights which had pending registration applications with the U.S. Copyright Office (USCO). For one rights holder, during FY 2017, there were nearly two hundred seizures of athletic shoes involving such recorded but not yet federally registered copyrights. Previously, recodation with CBP was not possible until the copyright was registered with the USCO. Now, once recorded, these unregistered copyrights receive the same benefits of IPR border enforcement and protection as those that are federally registered and recorded.

CBP works closely with rights holders in making IPR enforcement determinations. A public database of both active and inactive recordings is available using a search engine called the Intellectual Property Rights Search (IPRS) at <http://iprs.cbp.gov/>.

Information on potential IPR infringements can be submitted to CBP using the e-Allegations Online Trade Violation Reporting System at <https://eallegations.cbp.gov/Home/Index2>.

## IPR & E-Commerce

E-Commerce sales, including those through third-party platforms, have resulted in a sharp increase in small packages into the U.S. Annually, over 500 million packages are shipped through the express and mail environments.

89 percent of all IPR seizures take place in the international mail and express environments.

In September 2016, CBP officially established the E-Commerce and Small Business Branch, which has led the development of CBP's strategy and plan for combating violations of U.S. trade and customs laws pertaining to e-commerce shipments.

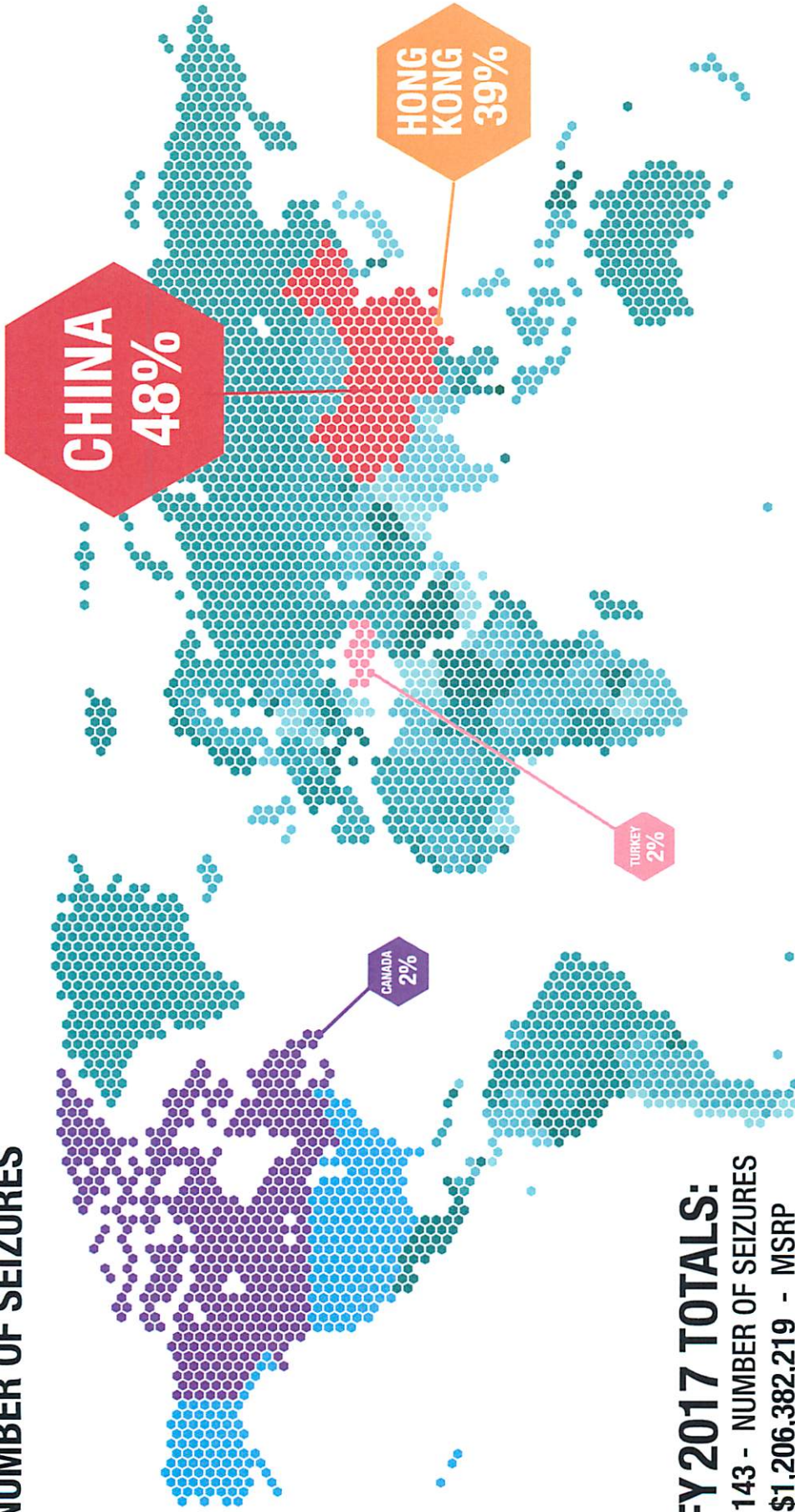
More E-Commerce related information can be found at <https://www.cbp.gov/trade/basic-import-export/e-commerce>





# FISCAL YEAR 2017 IPR SEIZURE STATISTICS

## BY NUMBER OF SEIZURES



### FY 2017 TOTALS:

34,143 - NUMBER OF SEIZURES

\$1,206,382,219 - MSRP

#### SHIPPING

#### ENVIRONMENT

#### BY NUMBER OF SEIZURES



**ALL OTHERS 1,106**

#### TOP PRODUCTS SEIZED BY NUMBER OF SEIZURES



**ALL OTHERS 14%**



## IPR Public Awareness Campaign



In 2017, CBP developed the "Truth Behind Counterfeits" IPR public awareness campaign. The first phase of the campaign ran during the busy summer travel period throughout June and July 2017 and reached approximately 97 million people. This phase of the campaign consisted of ads displayed in six airports located throughout the country – Chicago O'Hare International Airport (ORD), Washington Dulles International Airport (IAD), Dallas/Fort Worth International Airport (DFW), Los Angeles International Airport (LAX), New York International Airport (JFK), and Baltimore/Washington International Airport (BWI). The ads were also placed on travel websites such as TripAdvisor.com. The goal of the campaign is to inform international travelers about the legal, economic, and

public health and safety implications of acquiring IP infringing goods. The ads alert travelers that purchasing counterfeit goods supports criminal activity and raise awareness about the importance of shopping from reputable sources. In addition, CBP conducted six IPR road shows at various airports to talk with travelers about the dangers of counterfeit goods and their purchasing behavior. These road shows enabled CBP and HSI officials to educate the public directly. In FY 2017 CBP spoke with approximately 2,500 travelers through these events.

**HOW EXPENSIVE  
ARE THESE SHOES?**  
THEY COST THOUSANDS OF AMERICAN JOBS.

Buying counterfeit products damages the U.S. economy in ways you may not know. Shop from reputable sources.

Fake Goods.  
Real Damagers.

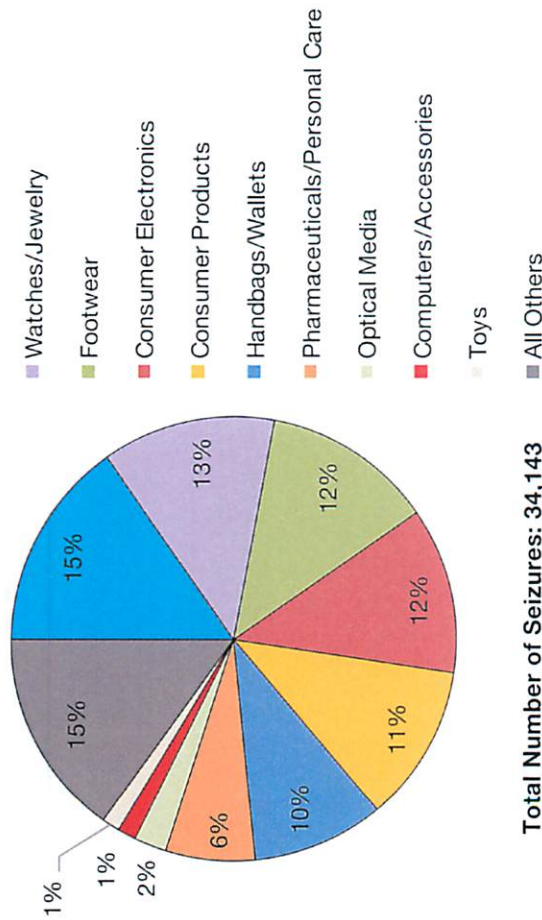
www.IPR.gov  
U.S. Customs and  
Border Protection





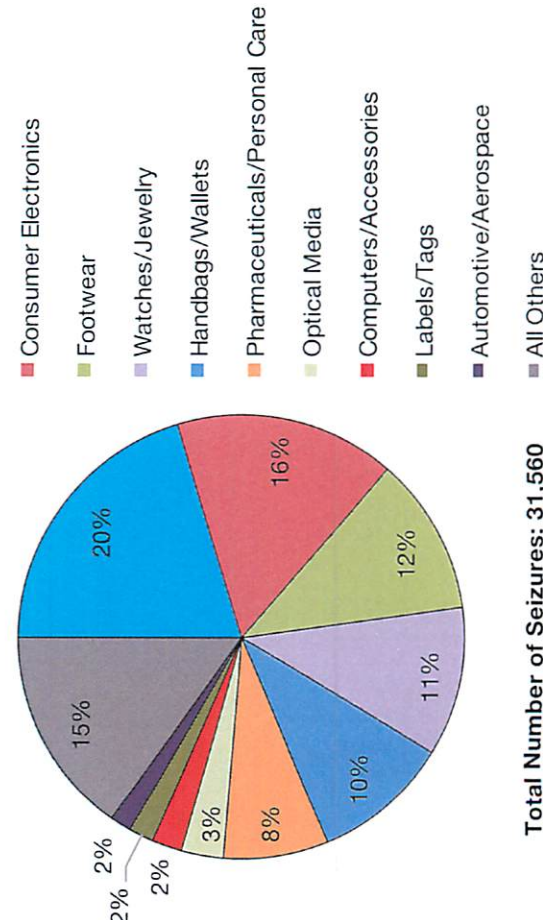
# Number of Seizures by Product

## FISCAL YEAR 2017



Total Number of Seizures: 34,143

## FISCAL YEAR 2016



Total Number of Seizures: 31,560

FY 2017	Products	Number of Seizures	Percent of Total
	Wearing Apparel/Accessories	5,223	15%
	Watches/Jewelry	4,297	13%
	Footwear	4,224	12%
	Consumer Electronics	4,137	12%
	Consumer Products	3,912	11%
	Handbags/Wallets	3,266	10%
	Pharmaceuticals/Personal Care	2,209	6%
	Optical Media	809	2%
	Computers/Accessories	454	1%
	Toys	449	1%
	All Others	5,163	15%
	<b>Number of Seizures</b>	<b>34,143</b>	

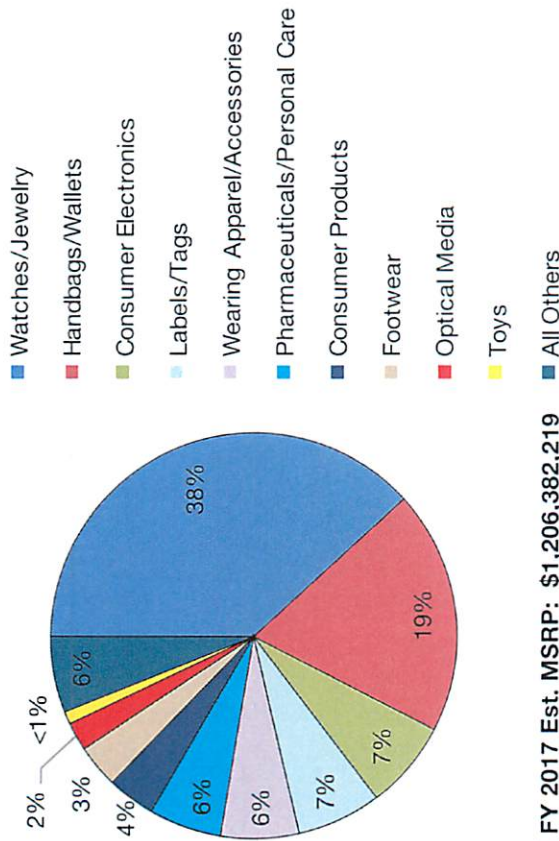
FY 2016	Products	Number of Seizures	Percent of Total
	Wearing Apparel/Accessories	6,406	20%
	Consumer Electronics	5,043	16%
	Footwear	3,630	12%
	Watches/Jewelry	3,407	11%
	Handbags/Wallets	3,184	10%
	Pharmaceuticals/Personal Care	2,401	8%
	Optical Media	963	3%
	Computers/Accessories	686	2%
	Labels/Tags	572	2%
	Automotive/Aerospace	486	2%
	All Other	4,782	15%
	<b>Number of Seizures</b>	<b>31,560</b>	

Seizures involving multiple product categories are included in the "All Others" category. Because the individual percentage figures are rounded, in some cases, the sum of the rounded percentages for a given fiscal year is slightly higher or lower than 100 percent.



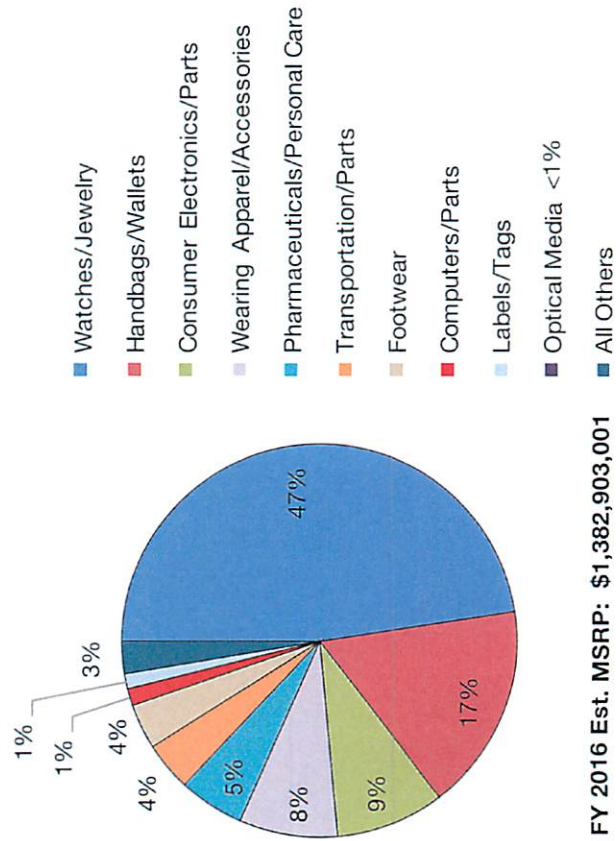
# Products Seized by MSRP

## FISCAL YEAR 2017



Total FY 2017 Est. MSRP: \$1,206,382,219

## FISCAL YEAR 2016



Total FY 2016 Est. MSRP: \$1,382,903,001

FY 2017 Products	MSRP	Percent of Total
Watches/Jewelry	\$ 460,162,145	38%
Handbags/Wallets	\$ 234,451,926	19%
Consumer Electronics	\$ 85,115,639	7%
Labels/Tags	\$ 80,951,055	7%
Wearing Apparel/Accessories	\$ 74,880,617	6%
Pharmaceuticals/Personal Care	\$ 69,758,720	6%
Consumer Products	\$ 46,265,355	4%
Footwear	\$ 41,490,429	3%
Optical Media	\$ 27,573,775	2%
Toys	\$ 12,128,156	1%
All Other Commodities	\$ 73,604,401	6%
<b>Total FY 2017 MSRP</b>	<b>\$ 1,206,382,219</b>	
<b>Number of Seizures</b>	<b>34,143</b>	

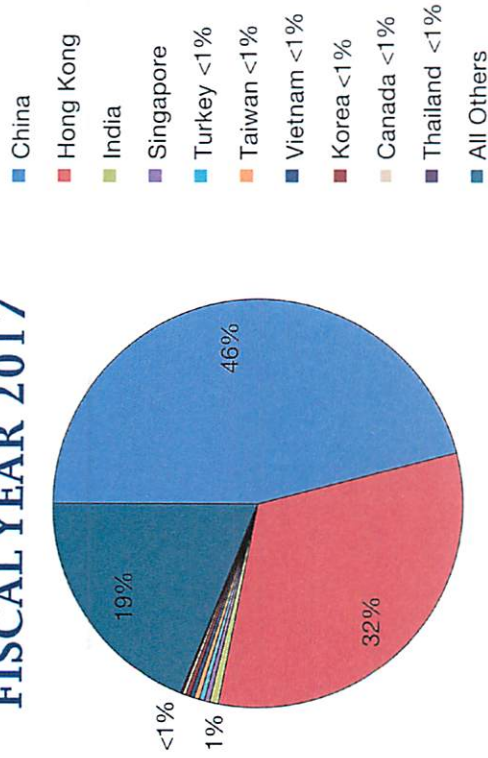
FY 2016 Products	MSRP	Percent of Total
Watches/Jewelry	\$ 653,590,442	47%
Handbags/Wallets	\$ 234,078,645	17%
Consumer Electronics/Parts	\$ 122,892,442	9%
Wearing Apparel/Accessories	\$ 110,805,624	8%
Pharmaceuticals/Personal Care	\$ 73,716,381	5%
Transportation/Parts	\$ 55,199,025	4%
Footwear	\$ 51,231,396	4%
Computers/Parts	\$ 19,319,416	1%
Labels/Tags	\$ 17,052,517	1%
Optical Media	\$ 8,165,968	1%
All Other Commodities	\$ 36,851,145	3%
<b>Total FY 2016 MSRP</b>	<b>\$ 1,382,903,001</b>	
<b>Number of Seizures</b>	<b>31,560</b>	

Seizures involving multiple product categories are included in the "All Others" category. Because the individual percentage figures are rounded, in some cases, the sum of the rounded percentages for a given fiscal year is slightly higher or lower than 100 percent.



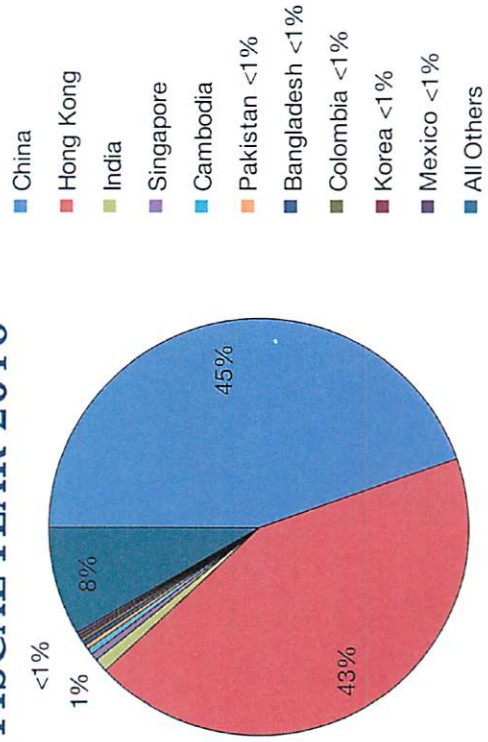
## Total MSRP for Products Seized by Economy

### FISCAL YEAR 2017



Total FY 2017 Est. MSRP: \$1,206,383,219

### FISCAL YEAR 2016



Total FY 2016 Est. MSRP: \$1,382,903,001

FY 2017 Trading Partner	MSRP	Percent of Total
China	\$ 554,631,765	46%
Hong Kong	\$ 386,242,271	32%
India	\$ 8,341,949	1%
Singapore	\$ 4,997,430	0.4%
Turkey	\$ 4,983,051	0.4%
Taiwan	\$ 4,902,390	0.4%
Vietnam	\$ 4,391,835	0.4%
Korea	\$ 4,235,107	0.4%
Canada	\$ 3,036,994	0.3%
Thailand	\$ 1,856,892	0.2%
All Others	\$ 228,762,535	19%
<b>Total FY 2017 MSRP</b>	<b>\$ 1,206,382,219</b>	
<b>Number of Seizures</b>	<b>34,143</b>	

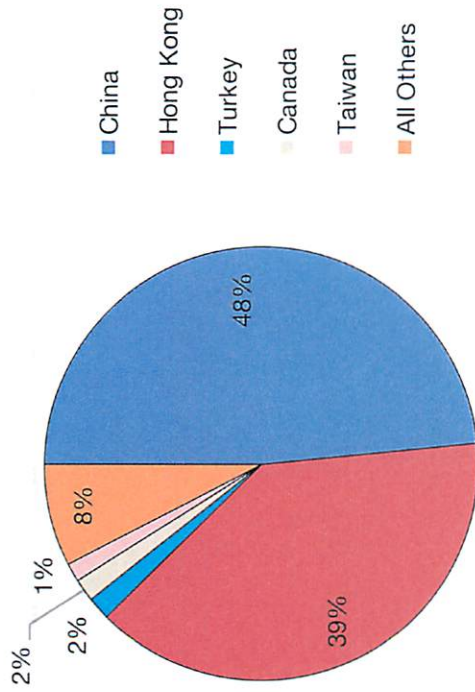
FY 2016 Trading Partner	MSRP	Percent of Total
China	\$ 616,881,043	45%
Hong Kong	\$ 599,785,306	43%
India	\$ 14,668,153	1%
Singapore	\$ 7,706,059	1%
Cambodia	\$ 7,014,825	1%
Pakistan	\$ 4,776,159	0.3%
Bangladesh	\$ 4,591,756	0.3%
Colombia	\$ 4,220,544	0.3%
Korea	\$ 3,585,190	0.3%
Mexico	\$ 3,538,991	0.3%
All Others	\$ 116,134,976	8%
<b>Total FY 2016 MSRP</b>	<b>\$ 1,382,903,001</b>	
<b>Number of Seizures</b>	<b>31,560</b>	

The aggregate seizure data reflect the reported country of origin, not necessarily where the seized goods were produced. Because the individual percentage figures are rounded, in some cases, the sum of the rounded percentages for a given fiscal year is slightly higher or lower than 100 percent.

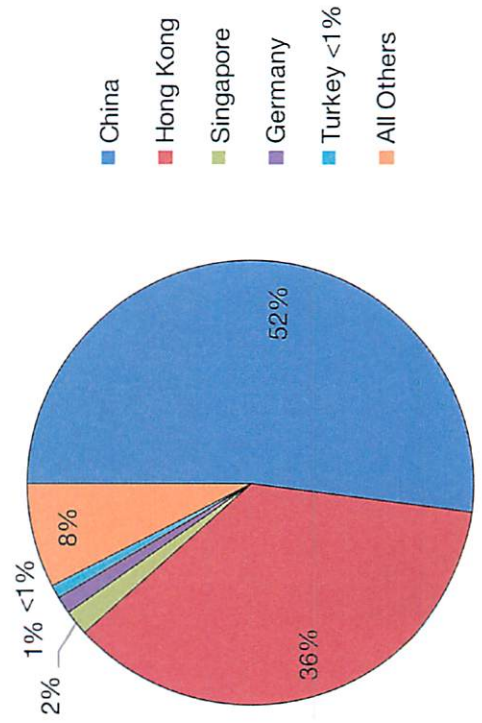


# Seizures by Economy

## FISCAL YEAR 2017



## FISCAL YEAR 2016



FY 2017 Trading Partner	Number of Seizures	Percent of Total
China	16,538	48%
Hong Kong	13,357	39%
Turkey	587	2%
Canada	581	2%
Taiwan	472	1%
All Others	2,608	8%
<b>Number of Seizures</b>	<b>34,143</b>	

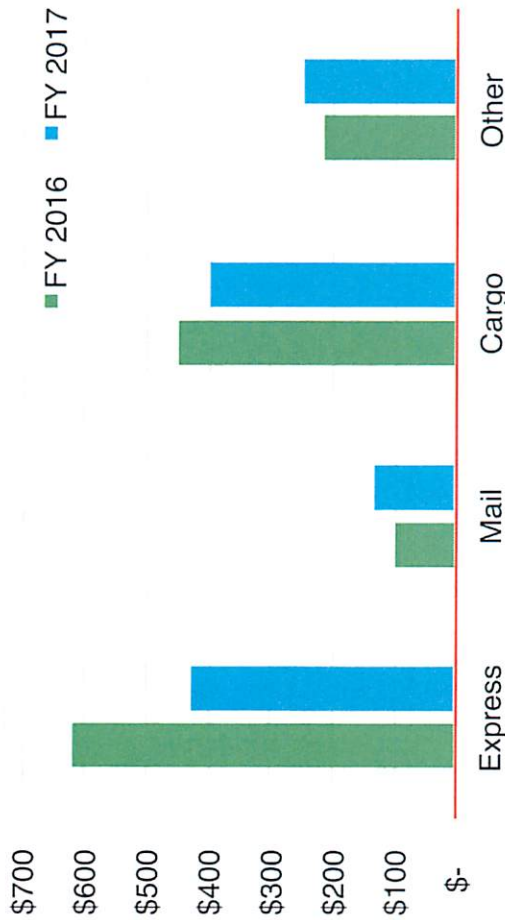
FY 2016 Trading Partner	Number of Seizures	Percent of Total
China	16,417	52%
Hong Kong	11,462	36%
Singapore	583	2%
Germany	396	1%
Turkey	309	1%
All Others	2,393	8%
<b>Number of Seizures</b>	<b>31,560</b>	

The aggregate seizure data reflect the reported country of origin, not necessarily where the seized goods were produced. Because the individual percentage figures are rounded, in some cases, the sum of the rounded percentages for a given fiscal year is slightly higher or lower than 100 percent.

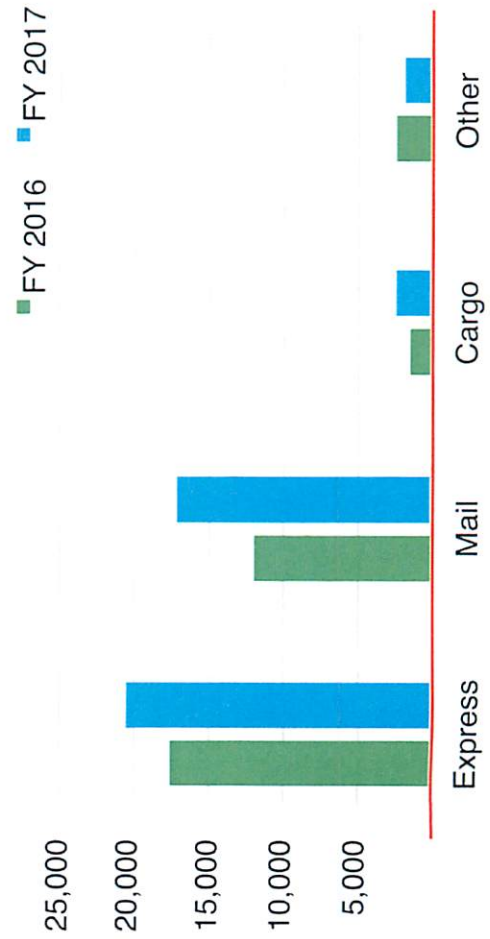


## Seizures by Shipping Environment

### Estimated MSRP (in millions)



### Number of Seizures



### Estimated Manufacturer's Suggested Retail Price (in Millions)

Mode	FY 2016 Percent of Total	FY 2017 Percent of Total	Difference	FY 2016 to FY 2017 Percentage Change
Express	44%	31%	\$ (185.20)	-30%
Mail	7%	9%	\$ 28.00	28%
Cargo	33%	29%	\$ (60.20)	-13%
Other	15%	18%	\$ 40.80	19%
Total			\$ (176.60)	-13%

### Number of Seizures

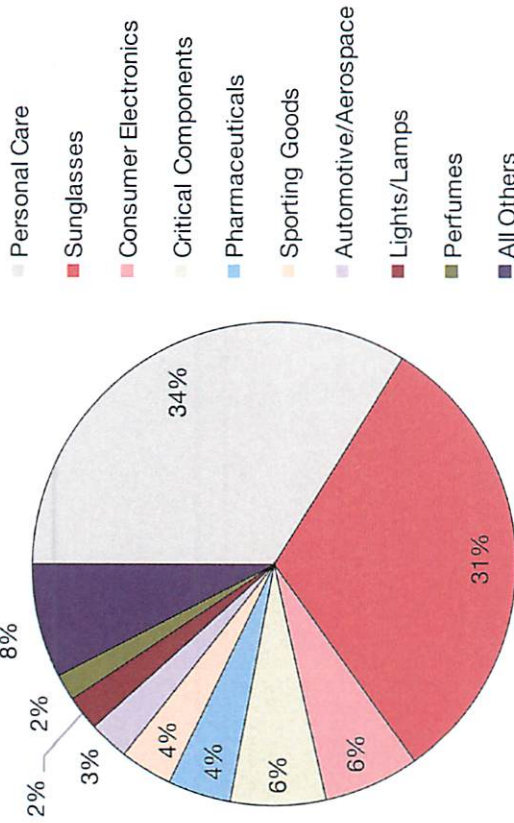
Mode	FY 2016 Percent of Total	FY 2017 Percent of Total	Difference	FY 2016 to FY 2017 Percentage Change
Express	55%	65%	3,054	18%
Mail	36%	32%	(1,334)	-12%
Cargo	5%	8%	1,007	62%
Other	4%	4%	(144)	-12%
Total			2,583	8%

Seizures included in the "Other" category involve exports, passenger baggage, or other enforcement actions.



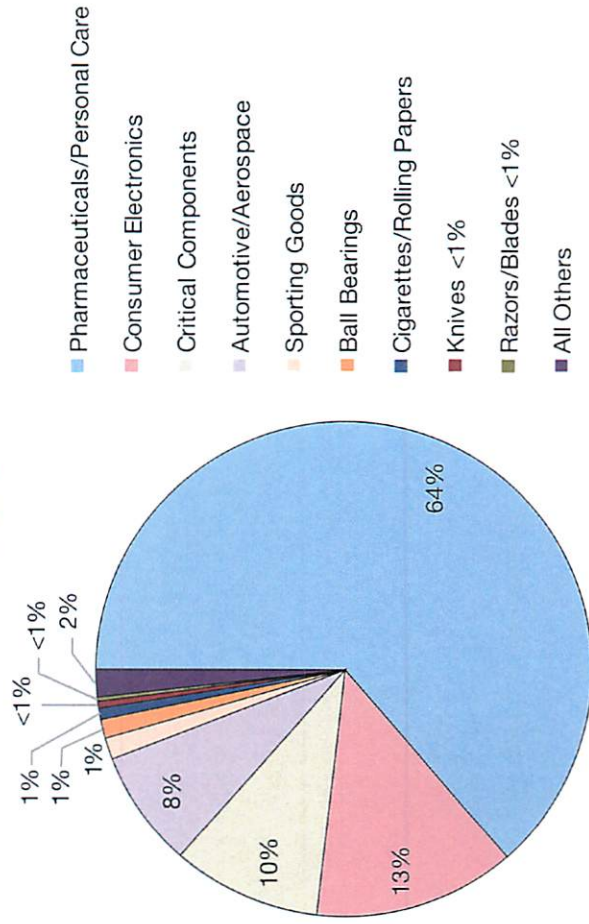
# Health, Safety, and Security

## FISCAL YEAR 2017



Total Number of Seizures: 4,171

## FISCAL YEAR 2016



Total Number of Seizures: 4,897

FY 2017			
Health, Safety, and Security	Number of Seizures	Percent of Total	
Personal Care	1,409	34%	
Sunglasses	1,306	31%	
Consumer Electronics	267	6%	
Critical Components	265	6%	
Pharmaceuticals	175	4%	
Sporting Goods	146	4%	
Automotive/Aerospace	113	3%	
Lights/Lamps	97	2%	
Perfumes	75	2%	
All Other Commodities	318	8%	
Number of Seizures	4,171		

FY 2016			
Health, Safety, and Security	Number of Seizures	Percent of Total	
Pharmaceuticals/Personal Care	3,114	64%	
Consumer Electronics	645	13%	
Critical Components	474	10%	
Automotive/Aerospace	376	8%	
Sporting Goods	69	1%	
Ball Bearings	60	1%	
Cigarettes/Rolling Papers	36	1%	
Knives	22	0.4%	
Razors/Blades	13	0.3%	
All Other Commodities	88	2%	
Number of Seizures	4,897		

Shipments with multiple types of products are included in the "All Others" category. Because the individual percentage figures are rounded, in some cases, the sum of the rounded percentages for a given fiscal year is slightly higher or lower than 100 percent.



## Exclusion Orders

CBP enforces exclusion orders issued by the United States International Trade Commission (ITC).

Most ITC exclusion orders are patent-based.

The ITC issues both limited and general exclusion orders. Limited exclusion orders apply only to infringing articles of named respondents. General exclusion orders bar the entry of infringing articles by all.

Exclusion orders prohibit the entry of all covered articles, even if they were not specifically accused and found to infringe by the ITC.

Once excluded, subsequent importations of the same articles by the same importer are subject to seizure.

### FISCAL YEAR 2016

Shipments Seized	Shipments Excluded	Seizure Est. MSRP	Rulings Issued*	Advice to Ports
52	113	\$3,254,654	19	54

### FISCAL YEAR 2017

Shipments Seized	Shipments Excluded	Seizure Est. MSRP	Rulings Issued	Advice to Ports
52	63	\$1,865,192	20	64

\*The term "rulings" covers rulings and other interpretive decisions.





## IPR Points of Contact

### Contact the IPR Help Desk to Report Violations and Obtain

**Assistance** - CBP's IPR Help Desk is staffed Monday through Friday to answer questions on IPR enforcement. Contact the IPR Help Desk at [iprhelpdesk@cbp.dhs.gov](mailto:iprhelpdesk@cbp.dhs.gov).

**Consult a CBP IPR Attorney** - For those who have legal questions about CBP's IPR enforcement and would like to interface with a CBP IPR attorney, the IPR Branch is available to help. To request information on CBP's recordation program, please contact the IPR Branch at [iprrquestions@cbp.dhs.gov](mailto:iprrquestions@cbp.dhs.gov). For general inquiries on IPR enforcement, please contact [hqiprbranch@cbp.dhs.gov](mailto:hqiprbranch@cbp.dhs.gov).

**Obtain Guidance on CBP E-Commerce Division** - The IPR & E-Commerce Division (IPR Division) coordinates with rights holders, members of the trade community, CBP staff, other Federal agencies, and foreign governments in developing and implementing the Agency's IPR strategy, policy and programs. To contact the IPR Division, email [iprpolicyprograms@cbp.dhs.gov](mailto:iprpolicyprograms@cbp.dhs.gov).

**e-Allegations** - If you are aware of or suspect a company or individual is committing IPR crime, please report the trade violation to CBP at e-Allegations Online Trade Violation Reporting System <https://eallegations.cbp.gov/Home/Index2>. Trade violations can also be reported by calling 1-800-BE-ALERT.

### National Intellectual Property Rights Coordination Center -

To report violations of intellectual property rights, including counterfeiting and piracy, contact the National IPR Coordination Center at <https://www.iprcenter.gov/referral/> or telephone 1-866-IPR-2060.







**Homeland  
Security**

[www.cbp.gov/ipr](http://www.cbp.gov/ipr)  
[www.iprcenter.gov](http://www.iprcenter.gov)  
CBP Publication # 0785-0918